

CDIAC

CALIFORNIA  
DEBT AND  
INVESTMENT  
ADVISORY  
COMMISSION

## SESSION FIVE:

# PRESENTING INFORMATION TO GOVERNING BODIES

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# Presentations to Governing Bodies

## What's being reported

- Statement of Investment Policy (mandatory)
  - Adopted Annually by Governing Body
  - Prescribed by GC\* 53646(a)(1)
- Quarterly Investment Reports (recommended)
  - Format defined by GC 53646(b)(1)
  - Detail of Security Holdings
- Annual Financial Statement Disclosures (mandatory)
  - Format prescribed by GASB\*\*
    - Market/Fair Value (Statement #31)
    - Disclosure of Investment Risks (Statement #40)

\* California Government Code

\*\* Government Accounting Standards Board

# Presentations to Governing Bodies

## Reporting Formats

- Staff Reports / Public Agendas
- Investment Oversight Committee Reports
- Financial Statement Footnote Disclosures
- Website Postings
- Revenue Analysis in Budget Documents

# Investment Reporting

- GFOA\* Best Practices Desired Outcomes
  - Public Transparency
    - Document Responsible Stewardship and
    - Prudent Financial Management (investment income is a budgetary resource)
  - Achievable Investment Income Estimates for Financial Management
  - Measuring of Investment Performance based on:
    - Risk Tolerance Selected
    - Liquidity Needs of the Organization
  - Timely & Accurate Financial Reporting
- Reporting Challenges
  - Timeliness
  - Readability to a Diverse Audience
  - Effective Communication of Investment Strategies and Investment Risks

\* Government Finance Officers Association

# Reporting Outcomes

- Disclosure of:
  - ▣ Changes in Economic/Market Conditions
  - ▣ Changes in Portfolio Structure
  - ▣ Results of Investment Activity
- Benefits:
  - ▣ Improved communication with policymakers and public
  - ▣ Continual evaluation of effectiveness of investment strategies
  - ▣ Prudency in decision making due to transaction visibility

# Reporting Frequency

- Frequency should be specified in the Investment Policy
  - ▣ Monthly
  - ▣ Quarterly
  - ▣ Annually
- Reporting Formats Vary significantly between Agencies but most reports provide the following information:
  - ▣ Statement of Investments Held
  - ▣ Analysis of Investment Activity
  - ▣ Summary of Return on Investments

# Level of Reporting Detail

## Consensus Recommendation (CDIAC\*)

- Level of Reporting Detail Depends on Activity Level and Audience
  - For Internal Treasury Staff and Oversight Committees listing of individual securities is appropriate
  - For Legislative Bodies aggregating value for asset class/type can be used (provided that additional information is available upon request)

\*California Debt and Investment Advisory Committee

# Government Code 53646(b)

## Quarterly Reporting (Required Elements)

- ▣ Type of Investment
- ▣ The issuer of the Security
- ▣ The maturity date of the Investment
- ▣ The value of the Security
  - At Par
  - At Cost
  - At Market
- ▣ The credit rating as of the reporting date

# Government Code 53646(b)

## Quarterly Reporting (Recommended Elements)

- ▣ Executive Summary
- ▣ Statement of Compliance with Adopted Investment Policy – disclosure of discrepant items
- ▣ Sufficiency of Six Month Cash Flows
- ▣ Commentary on Market Outlook
  - Analysis of affect of Economic Conditions on Investment Performance
- ▣ Portfolio Performance Trend Information
  - Charts
  - Earning Projections for Financial Planning
  - Average Weighted Yield to Maturity
  - Benchmarking

# Reporting Outcomes

## Presentation of Information

- Information Formats and Analysis beyond Statutory Requirements of GC 53646
  - Distribution of Investments by Sector
  - Distribution of Investments by Credit Quality
  - Distribution of Investments by Maturity
  - Describing Economic Conditions
  - Discussion of Investment Strategy
  - Reporting Yield
  - Benchmarking Investment Performance

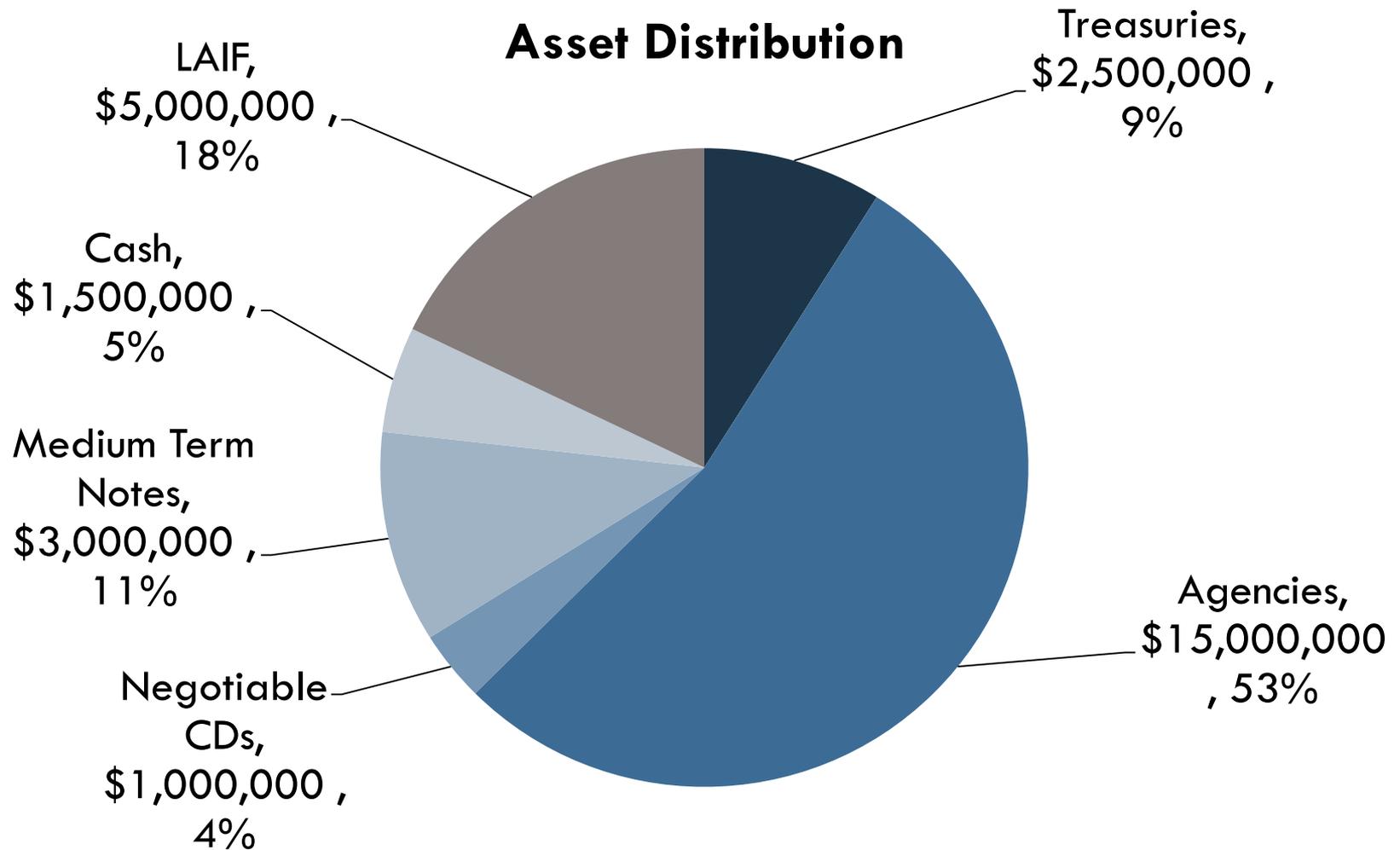
# Reporting Outcomes (continued)

## Investment Distribution by Sector or Credit Quality

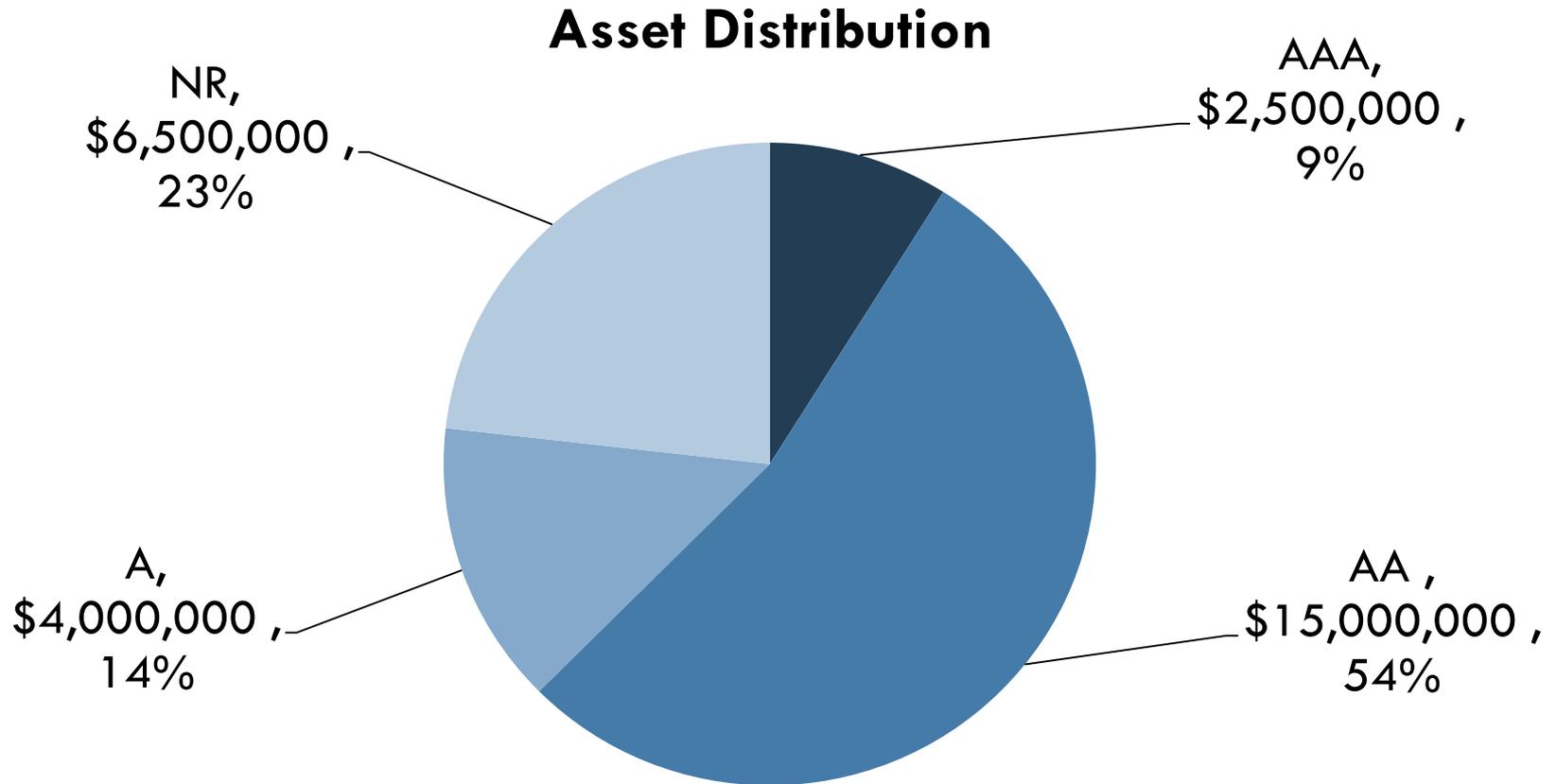
- ▣ **Summary:** Reports often include both a numerical compilation and a pie-chart of investment value distribution by security classification/type/sector and/or by credit rating.
- ▣ **Discussion:** Laypersons often find the graphical display of financial information easier to understand than numerical tabulations. Displaying financial information in multiple presentation formats can make reading and interpreting that information easier for a broader audience. Including just graphical representations in percentage formats without the underlying values in tabular format may not sufficient.

Reference: Pages 24 & 26 (CDIAC 04-5)

# Distribution by Sector



# Distribution by Credit Rating



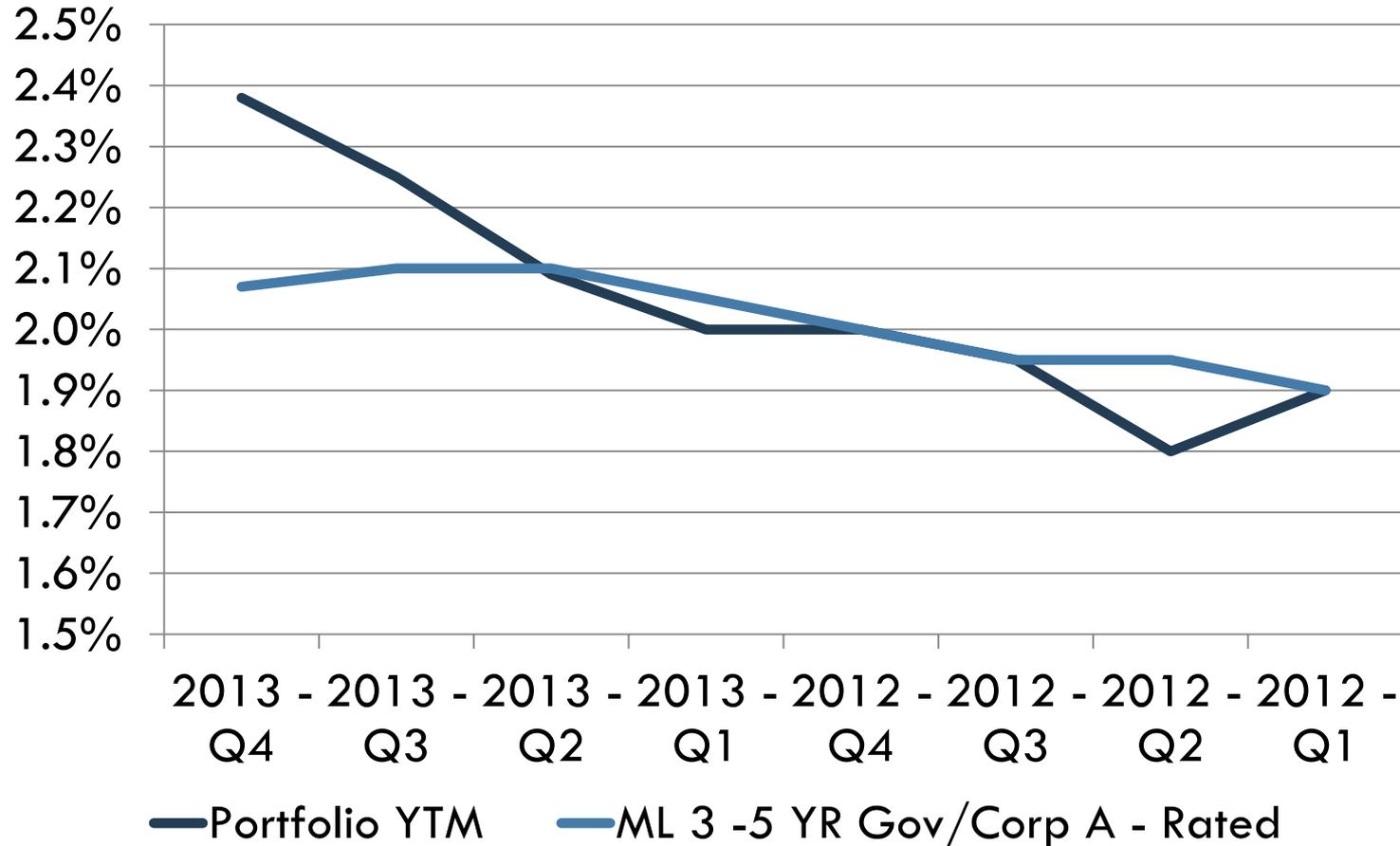
# Reporting Outcomes (continued)

## Benchmarking Portfolio Performance

- ▣ **Summary:** Many reports include actual performance comparison to commonly accepted benchmark. It is important to select a benchmark that reflects similar investment goals related to safety, liquidity and duration.
- ▣ **Discussion:** If an inappropriate benchmark is selected, interpreting the results of the comparison of portfolio performance may not provide useful information.

Reference: Page 29 (CDIAC 04-5)

# Investment Performance



# Reporting Outcomes (continued)

## Describing General Economic Conditions

- ▣ **Summary:** Some reports associate economic indicators such as yield curves, consumer confidence, employment, inflation, and retail sales to project/forecast investment returns and anticipated portfolio performance.
- ▣ **Discussion:** This option may provide perspective on portfolio performance and also direct attention to risk exposures based on asset allocations and investment duration. Meaningful analysis frequently requires the services of external consultants and financial analysts.

Reference: Page 33 (CDIAC 04-5)

# Reporting Outcomes (continued)

## Discussion of Investment Strategy

- ▣ **Summary:** Some reports describe investment strategy within the context of the current state of the economy and with projected interest rates. Other reports present a general statement associating investment decisions with the shape of the yield curve.
- ▣ **Discussion:** Using economic conditions as a reference point helps to explain the reasons for portfolio composition. However, these discussions may encourage “market-timing” which may distract from achieving a balanced combination of investment goals of safety, liquidity and yield.

Reference: Page 34 (CDIAC 04-5)

# Reporting Outcomes (continued)

## Reporting Yield

- ▣ **Summary:** Reports may present yields in a number of different ways, including average weighted yield, total coupon rate, yield-to-call and yield to maturity.
- ▣ **Discussion:** Reporting portfolio yield provides a measurement of investment performance. This information may be used to determine the costs and benefits of specific investment strategies. However, reporting yield may stimulate the desire of an investment manager to compete amongst peers and could result in portfolio management that may not meet governing body objectives for safety and liquidity.

Reference: Page 36 (CDIAC 04-5)

## Mark-to-Market Valuation

- ❑ Objective is to provide a realistic estimate of liquidation value of an investment portfolio
- ❑ Periodic Adjustment of Values Assigned to Investments to reflect changes in “fair value”
- ❑ For GAAP Compliance needed only at year end to prepare Financial Statements
- ❑ GFOA guidance is for adjustments:
  - Monthly for investment pools – or –
  - Quarterly for non-pooled investments
- ❑ Recognized Independent Sources of Market Value:
  - Broker
  - Custodial Bank or Safekeeper

# GASB – 31 (continued)

## Reporting Challenges

- Can cause discomfort in a rising interest rate environment when portfolio value falls below cost basis
- Represents a Challenge for Investment Managers to explain what “marketing to market” losses mean in terms of:
  - Cash Flows from Investment Earnings
  - Opportunity Cost in “buy and hold” investment strategies
  - Reporting of “Net Position” on Financial Statements

## Financial Reporting Disclosures (Financial Statements)

- ▣ Financial Statement Footnotes related to:
  - Custodial Credit Risk
  - Issuer Credit Risk
  - Concentration Risk
  - Interest Rate Risk
  - Foreign Currency Risk

# Resources

- [Investment Portfolio Reporting Practices: An Informational Guide, CDIAC 06-03\\*](#)
- [Understanding Public Investment Reporting: A Handbook for Local Elected Officials, CDIAC 03-02\\*](#)
- [California Public Fund Investment Primer, CDIAC No. 09-02\\*](#)

\*Hyperlinked and downloadable from the CDIAC Website

# City of Anaheim

- ▣ Statement of Investment Policy\*
  - Effective January 1, 2014
  
- ▣ Investment Portfolio Report\*
  - January 2014
  
- ▣ City Council Staff Report Summary\*

Posted as separate documents on CDIAC's website:

<http://www.treasurer.ca.gov/cdiac/seminars.asp>